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APPLIED PSYCHOLOGY, DEVELOPMENT BANKING, AND ECONOMIC
DEVELOPMENT IN LATIN AMERICA: STATUS REPORT ON AN
ATTEMPT TO BUILD A NATIONAL SYSTEM OF DEVELOPMENT
BANKS*

George F. Farris

June, 1968

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DEVELOPMENT IN LATIN AMERICA: STATUS REPORT ON AN ATTEMPT TO
BUILD A NATIONAL SYSTEM OF DEVELOPMENT BANKS

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Since February, 1967, M.I.T. and the national economic development bank of a Latin American country have been collaborating in a program of technical assistance intended in part to apply psychological theory to management practices in development banks. The program's goals are to (1) provide training for members of twenty regional development banks in current concepts and skills in development banking, (2) establish an effective system of information flow and evaluation procedures for decision making and follow-up loans, and (3) build an effective national system of regional development banks. The program is an interdisciplinary one, involving specialists in information systems and finance as well as psychology.

Problems of economic underdevelopment, of gaps between rich and poor, are among the most important social issues facing us today. Although these problems have received increasing attention in recent years, they have not yet been solved, and their peaceful solution is becoming an increasingly urgent task as threats of more violent forms of social change are heard from the less developed sectors of many nations, including the United States.

What contribution can the concerned social scientist make to the solution of these problems? Various possibilities are open to him, including, for example, work with the poor in various community development programs, work with individual members of the business community to affect their motivation as McClelland (1965) has done, or work at the level of public or private financial institutions.

Our project involves the latter course. Our belief is that by helping to strengthen the institutions which allocate and disburse capital for economic

growth, we are contributing to economic development itself. We further believe that work at the institutional level has definite advantages over work at the level of the individual businessman or the community, including:

1) Educational leverage. Concepts and techniques learned by members of the financial institutions can be transferred by them to a broad sector of the business community in the context of financial transactions. The banker role is an excellent vehicle for transfer of technology because of the banker's extensive interaction with entrepreneurs concerning financial and technological matters.

2) Economic leverage. In his interaction with the entrepreneur, the banker makes the availability of funds contingent upon characteristics of the borrower's project. The banker is thus able to reward and punish the entrepreneur's behavior in good Skinnerian fashion.

3) Institutional leverage. The contribution of the social scientist, when he has completed his work, can be left behind not only in individuals, but also in the form of policies and institutional structures designed to foster economic growth.

In short, by working toward establishment of trained cadres of professionals in development finance institutions, the social scientist transfers his technology to people who play a continuing educational role in economic development and exercise considerable economic influence over the behavior of the entrepreneur.

During the first year of M.I.T.'s work with the "National Bank", we have been involved in several activities:

1) Establishment of a joint working group consisting of four bank officers, three Boston-based M.I.T. faculty, and two senior M.I.T. representatives permanently located in the bank. The group is supported by additional staff from both the Bank and M.I.T. Although the working group only advises

units of the Bank who have operating responsibility concerning the regional banks, its members include Bank officers charged with this operating responsibility. Thus, they serve as "linking-pins" between project activity and ongoing operations.

2) Visits to regional banks to study their operations and to lay the groundwork for work with them.

3) A two-month course for forty-two participants from seventeen regional banks. The course included sections on appraisal and control of loans, the role of the professional in development finance, management of small enterprises, theory of economic development, and working as an effective team. Since the goal of the course was to teach skills which the participants would use upon their return to their banks, special efforts were made to achieve this. These included training teams from the regional banks rather than just individuals, three days of motivation and orientation at the beginning of the course, planning for return to the banks at the end of the course, and experience-based learning techniques including a business game, role-playing an interview with a bank director, and developing a draft of the control procedures which the participants would actually use in their work. The course staff included operating personnel from the National Bank as well as professors from three of the country's universities and M.I.T. Thus, relationships were developed among several important members of the country's financial and academic communities.

4) Basic work on a management information and control system for the regional banks, including both technical and human aspects. In addition to drafting technical procedures, members of the joint working group have visited

several regional banks to help the course participants with problems encountered in implementing their course learnings and new procedures. The emphasis, as stated by the National Bank officer in charge of relations with the regional banks is on "helping them to do a better job more than controlling them to make sure they do so." The guiding philosophy is one of "self-control" by technically competent people in the regional banks, not tight, centralized control by the National Bank.

5) Preliminary work on an organizational development program. Through these visits to the regional banks and the interaction centered around the training course, work has begun on developing the human aspects of a national system of banks, emphasizing factors such as face-to-face communication, upward influence, broader participation in decision making, and effective reward system for the career professional in development finance.

6) National system of development banks. All of the above activity has contributed toward the creation of a system of banks staffed by technically competent people having common goals and exchanging information to help achieve them. Further efforts are anticipated to unify the elements into a viable system.

7) Research. Several kinds of research designed both to help with the technical assistance activities and to evaluate the effects of these activities have been carried out. Thus far it has included descriptions of the functioning of the banks, emphasizing their stated systems and "real" systems of decision making on loan applications, questionnaire studies of organizational factors in seventeen banks, initial conceptual and empirical work to record the process of technical assistance, establishment of economic criteria to evaluate the impact of loans on economic development and the effectiveness of

the Project itself, and questionnaires to assess the effects of the two-month training course. The emphasis in all the research activity has been to make it useful to operations, not simply material to help the North Americans write books. Before-after questionnaire measurements on the course, for example, are seen as feedback to help in planning the next one. The procedure has been sufficiently successful so that members of the Bank have independently prepared questionnaires to evaluate their own teaching in the course. Results from the basic questionnaire on organizational factors were used to discover problems in the system of banks and to help in designing the two-month training course.

I hope that this cursory description gives you an overview of the Development Banking Project and a feeling for some of the activities and working relationships involved. In the time remaining I would like to highlight a sample of the findings from the early research activity on the Project. These results are only preliminary, but they represent some interesting trends which I expect will be substantiated as work progresses.¹

One area of continual research interest is that of motivation. How important are job factors to people in various countries? How is the importance of a job factor related to national differences, differences in the type of organization for which a person works, or differences in the person's role in the organization itself? We investigated this topic, using questionnaire

¹The research is described in detail in the following technical reports in the M.I.T. Development Banking Project series:

- 1) G. Farris, G. Chinn, H. Friedman, L. Wakeman, and J.D. Nyhart. Questionnaire study of four Development Banks. December, 1967.
- 2) G. Farris. Assumption about Management Practices. April, 1968.
- 3) G. Farris, et al. Some Correlates of "Classical" and "Modern" Assumptions about Management Practices. In preparation.
- 4) G. Chinn, et al. Evaluation of a two-month training course in Development Banking. In preparation.

responses from a sample of eighty employees of four regional development banks and thirteen hundred employees from a private company in the same Latin American country. The respondents were similar in age and education, and represented most of the jobs in the banks and the company. The trends in this comparison point to the following conclusions:

1) The importance of most job factors was most often reported as "great" to "very great" on a five-point scale, by both the government bank employees and the employees of the private company. These findings are in accord with the suggestion of Haire, et al. (1966) that people from the developing countries tend to have high aspirations, especially when compared to those from the more developed countries.

2) Of ten identically worded items, the bankers and private company employees attached substantially the same importance to five of them. These dealt largely with more "intrinsic" job factors such as freedom, challenge, opportunity to develop skills, and fair recognition. They also included opportunity for advancement and working for a highly regarded organization. The factors showing the greatest differences were "extrinsic" job factors. Each of these was more important to members of the private company: job security, good working conditions, and good pay, and working on problems important to the company.

3) Among the bank employees, some differences were found in the most important job factors for people in different roles. For those at the technical level, the most important job factors were those regarding knowledge and skills -- developing new skills, using their present skills, and working under highly-skilled people. For those in middle management, the most important factors were working under highly-skilled people, using present skills, and appreciation for their contributions. Top management were most interested in advancement and clear work goals. All three levels emphasized working on problems of relevance to the state or country, but top management emphasized these more and placed equal emphasis on problems important to their institution.

In short, these findings indicate generally high importance of most job factors, a lesser emphasis on extrinsic job factors for bankers than for employees of the private company, and some differences in most important job factors according to the person's role within the organization itself.

These results are not inconsistent with those in the previous literature, based largely on work in the United States.

Another area in which we have comparative data concerns assumptions about management practices, beliefs about peoples' capacity for leadership and initiative, sharing information and objectives, participation, and rewards. The assumptions held by participants in our two-month course were compared to those of managers from 14 countries surveyed by Haire, et al. (1966) and employees of the private company mentioned above from the same country.

Compared to the average of the fourteen countries, course participants believe more strongly in peoples' capacity for leadership and initiative, but less strongly in sharing information and objectives, participation, or use of non-economic rewards. Compared to Haire, et al.'s "Developing Country Cluster," (two Latin American countries and India all having similar management assumptions) course participants believe more strongly in people's capacity for leadership and initiative and in sharing information, but less strongly in using noneconomic rewards and about equally in participation. Using Haire's terms, course participants are the most "modern" of all regarding people's capacities, and more "classical" in the other three areas. They are more "modern" than the developing countries he studied in their stronger endorsement of people's capacities and sharing information and more "classical" than these countries in using noneconomic rewards.

The course participants and employees of the private company were in substantial agreement on ten of seventeen identical items. Bankers more strongly endorsed group decision making, smaller organizations, breaking company rules and company interest in employees' private lives. Company employees placed greater stress on knowing the right people, the interest of most businesses in employee welfare, and interesting work as opposed to high earnings. Although there is no clear pattern in these differences, they tentatively seem to indicate a stronger belief by the bankers in small, flexible, paternalistic organizations, and generally, they are employed by such organizations. Those from the private company may be endorsing assumptions which they have found to hold in their larger, more complex organization, such as obeying rules, knowing the right people, and the motivational importance of interesting work.

In short, these findings regarding managerial assumptions indicate general similarities between course participants and managers from other developing countries and from the private company in their own country. However, the differences between the course participants and the others are at least equally striking. They seem to be in part national differences and in part a function of the type of organization for which the respondents work.

Finally, we asked whether these differences in assumptions about management practices were related to learning in our development banking course. We expected that those holding more modern assumptions about management practices would learn more in a course devoted to "modern" banking practices than those predisposed toward more classical assumptions, since the new information from the course would be more in harmony with their beliefs.

We devised a Management Beliefs Scale on the basis of the content of fifteen items about managerial assumptions and divided the participants at the mean into a "Classical" and a "Modern" group. To measure learning in the course, we asked each participant to rate himself on eleven skill areas which the course attempted to improve. During the first week of the course, participants reported their present skills in these areas and the level they would like to attain at the close of the course. Then, at the end of the course two months later, they reported where they felt they stood in these same skill areas.

Classical and modern assumptions about management practices tended to be related to course learning as predicted. The "Moderns" perceived a greater improvement in skills than the "Classicals" ($p < .05$), although they rated their initial ability higher ($p < .10$). Moreover, the "Moderns" came closer to meeting their expectations for improvement in "overall competence as a specialist in development finance." ($p = .05$) Thus, we found "modern" assumptions about management practices to facilitate learning of "modern" technical skills. Kahl's (1968) finding that social class and an urban environment were related to general modernism in two Latin American countries suggests that such factors may also be related to "modern" assumptions about management. We are currently investigating this hypothesis since "Modern" assumptions appear to be important personal characteristics for members of development finance institutions.


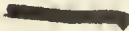


This brief description of some of our action, research, and action research activities should give you a flavor of our application of social science to economic development. We expect that the knowledge gained from research on the process will have implications for cross-cultural studies of organizations, planned social change, and the design of training programs. Our experience thus far indicates that interdisciplinary work at the institutional level is an effective way for social scientists to influence factors important in development. I hope you agree.

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